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SUBJECT: Mission Economic Growth and Development Goals

11. Introduction and Summary: A recent review of the Mission Strategic Plans provided a good snapshot of what we achieved in the last year and our top priorities looking ahead. This is the second cable to provide a goal by goal look of what Embassy Dushanbe is doing. Work towards the Economic Growth and Development Goal is coordinated by the Development Assistance Working Group (DAWG) which includes the DCM, USAID, POL/ECON, Public Diplomacy, INL, and the Office of Defense Cooperation. Key priorities are support for small and medium enterprises, energy sector development, promoting regional and international trade and investment links, agriculture sector reform, legal and regulatory reform and transportation infrastructure development. Key accomplishments in 2008 included a moratorium on inspections of small and medium business, the establishment of an American Chamber of Commerce, the passage of land-related legislation and productivity boosting assistance to farmers. Increased use of the U.S.-built bridge to Afghanistan at Nizhniy Pyanj improved trade and local transport links. Tajikistan experienced solid growth in a several economic indicators this year including trade and tax revenue, but this growth was supported mainly by strong growth in labor migration and remittances. With Russia's financial crisis reducing remittances, Tajikistan faces a difficult 2009. A key challenge will be supporting economic growth despite falling remittances. End intro and summary.

Key accomplishments in 2008

12. In the trade and business climate we made progress in several areas. With Mission support, businesses with U.S. ties established an American Chamber of Commerce to advocate for business and trade reforms. With Mission advocacy, the government announced a two-year moratorium on inspections of small and medium enterprises. We supported an agricultural trade fair in Kunduz, Afghanistan for Tajik participants. We held the regional TIFA Council Meeting in Dushanbe and followed up on key points from the consultations. The Mission sponsored a speaker on tourism development who received strong press coverage and developed a non-paper of recommendations for Tajik tourism development. We worked with the Ministry of Economic Development and Trade (MEDT) to reactivate dormant WTO accession negotiations, providing expert advice and technical assistance in completing and submitting replies to the current round of questions from the WTO Working Group members. As a result, Tajikistan was scheduled for a new Working Group meeting in late 12008. We promoted sustainable fiscal capacity at the Finance Ministry, which revised the budget presentation format to be a more effective management tool reflecting international best practice. We strengthened the microfinance sector through capacity building in the Association of Microfinance Organizations of Tajikistan.

13. Agriculture is key to improving growth and economic security. In January 2008 the government adopted amendments developed with U.S. assistance to the Land Code. The changes made it possible to legally transfer land use rights for the first time ever. In March 2008, the

government adopted the new Law on Mortgage and the new Law on the State Registration of Immovable Property Rights, developed with U.S. assistance. USAID refocused and expanded agricultural sector programs to address better the challenges to food security. We Qprograms to address better the challenges to food security. We helped farmers manage water and land resources through 26 water user associations (WUA) including four new associations in vulnerable regions. These associations reported significant increases of up to 120% in agricultural productivity, and increased net income because of improved water availability, despite drought conditions in 2008.

14. We saw progress in infrastructure development in energy and transportation. In the energy sector the U.S. Trade and Development Agency (TDA) agreed to finance a feasibility study on coal mining at a key deposit. We provided power system simulation software and technical assistance to the national electricity company, which help them manage technical losses in transmission and distribution lines based on reliable power loss calculations. Tajikistan signed a Power Purchasing Agreement with Afghanistan. In transportation infrastructure development we saw trade traffic increase considerably with the opening of the U.S.-built bridge at Nizhniy Pyanj to both commercial and private traffic, including pedestrians. In the aviation sector, through TDA, we supported Tajik participation in an international Civil Aviation Conference in Athens and supported the sale and lease of Boeing aircraft to two local airlines.

Results on Indicators

15. In the expectation that economic growth would lead to increased tax revenue, we targeted an increase in government revenue at 10%. In fact, it increased 21%. For customs revenue due to increased

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trade we targeted a 15% increase. According to the State Customs Agency, the customs revenues in the first ten months of 2008 increased 27%. Our target for increased deposits at commercial banks was \$350 million, while the National Bank of Tajikistan reported a \$527 million increase as of September 2008. We targeted Tajik-Afghan trade to increase 20%, but according to State Statistics Committee the Tajik-Afghan Trade turnover increased 200%. While the robust growth in these indicators is seemingly a good sign, in fact, the driving factor was increased labor migration as living standards suffered in a harsh winter, and very high growth in remittances. These remittances, rather than domestic developments, supported the strong growth in tax revenue, trade volumes, and bank deposits. With remittances likely to fall back in 2009 due to the financial crisis and lower oil prices, maintaining positive momentum on these indicators will be a challenge. Looking to agriculture we targeted a reduction in the percentage of farmland used for cotton cultivation of 10%. Despite food shortages and Freedom-to-Farm decrees in 2008, 242 thousand hectares of land was used for cotton, only 5% less than in 2007. There was marginal to no improvement on ease-of-doing-business indicators.

Top goals for 2009

16. In 2009 the Mission plans to support further trade fairs with Afghanistan. We will advocate for an improved Tajik visa regime to support trade, investment, and tourism. We will support activities of the new American Chamber of Commerce. The Mission will bring in a visiting Policy Specialist on Alternative Energy and send a group of Tajiks to the United States for an Open World program on alternative energy. We will support increased power generation capacity through a TDA feasibility study of power projects in the Pamir region. We will advocate to advance Regional Power Integration efforts. We will work with farmers and the government to carry out land reform legislation. We will finish the final elements of the Nizhniy Pyanj bridge facilities and to expand traffic over the bridge. We will advocate for expanded aviation services in the region and to the West and familiarize Tajik officials with the Open Skies Agreement concept. We will work with TDA to provide management assistance to Tajik Air and Somon Air, and support the operation of PACTEC Aviation Service in Kurgan Tube if that moves forward.

New developments and major challenges

¶7. The global financial crisis is a new development that complicates many things. It has thrown all calculations of remittances, customs revenues, overall government revenues, electricity prices and demand in Afghanistan and Pakistan, into doubt. With significant numbers of migrants returning and needing we will emphasize to the government the increased importance of improving the climate for small business.

¶8. A multi-year Food-For Peace Development Assistance Program ended in 2008 and was not renewed. This program used food aid to encourage rural Tajiks to participate in development activities, including maternal and child health programs, nutritional education, and agricultural training. Further, the program acted as an information network on conditions in rural areas allowing us to monitor levels of hardship and anticipate humanitarian emergencies. With the end of the program, we risk losing this network, our ability to provide food assistance, and a way to engage rural dwellers in development activity.

¶9. The failure of Tajikistan to take action to combat money laundering maintains an opaque financial system. The Parliament just extended until June, 2009 the property amnesty law for legalizing unregistered property which precludes passage of an anti-money laundering law in the near term.

¶9. Other obstacles to promoting economic growth and development are pervasive corruption in government, government's slowness to make decisions, mistrust of any connections with Afghanistan, cotton sector debt which may affect overall agricultural production and investment, poor creditworthiness of the government due to the IMF misreporting scandal, lack of electricity during the winter and spring, and climate change which has led to reduced snowfall and lower water flow into reservoirs.

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